

**Mancelona Area Water  
and Sewer Authority**

*Antrim County Michigan  
Audited Financial Statements*

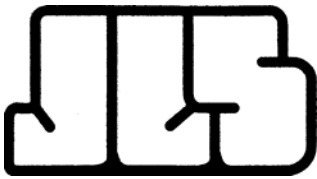
*For the Year Ended December 31, 2007*

## TABLE OF CONTENTS

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	<b><u>Page</u></b>
<b>FINANCIAL SECTION</b>	
<i><u>Independent Auditor's Report</u></i>	1-2
<i><u>Management's Discussion and Analysis</u></i>	3-5
<i><u>Financial Statements</u></i>	
<i>Exhibit</i>	
A Proprietary Fund Statement of Net Assets	6
B Proprietary Fund Statement of Revenue, Expenses and Changes in Net Assets	7
C Proprietary Fund Statement of Cash Flows	8-9
<i><u>Notes to Financial Statements</u></i>	10-18
<b>FEDERAL FUNDS SECTION</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i>	19-20
Schedule of Expenditures of Federal Awards	21
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	22-23
Schedule of Findings and Questioned Costs	24
<b>OTHER INFORMATION (UNAUDITED)</b>	
<i><u>Comments and Recommendations</u></i>	25-26

FINANCIAL SECTION



# J L Stephan Co PC

## Certified Public Accountants

Jerry L. Stephan, CPA

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Marty K. Szasz-Busby, CPA  
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Christopher H. Cornell, CPA

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Mancelona Area Water and Sewer Authority  
PO Box 940  
Mancelona, MI 49659

We have audited the accompanying financial statements of the business-type activities of the Mancelona Area Water and Sewer Authority as of and for the year ended December 31, 2007 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2007 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report date June 6, 2008, on our consideration of Mancelona Area Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages three through five are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mancelona Area Water and Sewer Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Mancelona Area Water and Sewer Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*J. L. Stephen Co. P.C.*

June 6, 2008



# Mancelona Area Water and Sewer Authority

## Management's Discussion and Analysis For the Year Ended December 31, 2007

This section of the Mancelona Area Water and Sewer Authority's annual financial report represents its discussion and analysis of the Authority's financial performance during the year ended December 31, 2007. Please read it in conjunction with its financial statements which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mancelona Area Water and Sewer Authority financially as a whole. The basic financial statements are comprised of the following elements:

#### *Management's Discussion and Analysis (MD&A) (Required Supplemental Information)*

#### *Basic Financial Statements*

Statement of Net Assets

Statement of Revenues, Expenses and Changes in Net Assets

Statement of Cash Flows

#### *Notes to the Basic Financial Statements*

The Statement of Net Assets provides balances as of the end of the reporting period. The Statement of Revenues, Expenses and Changes in Net Assets provides information related to the activities of the Authority during the year. The Statement of Cash Flows presents detailed information about the Authority's cash collection and disbursement.

### **Financial Overview**

The Statement of Net Assets provides information about the Authority as a whole at year's end. The following provides a comparison of the current and prior year's net assets:

<b>Assets</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Current Assets	\$ 267,007	\$ 183,711
Non-Current Assets	4,475,379	3,888,964
Construction In Progress	598,144	-
Capital Assets - net	<u>9,208,895</u>	<u>9,298,000</u>
<b>Total Assets</b>	<b>14,549,425</b>	<b>13,370,675</b>
 <b>Liabilities</b>		
Current Liabilities	283,567	156,884
Long-Term Debt	<u>3,805,909</u>	<u>3,456,906</u>
<b>Total Liabilities</b>	<b>4,089,476</b>	<b>3,613,790</b>
 <b>Net Assets</b>		
Invested in Capital Assets – net of debt	5,985,060	5,954,166
Restricted	375,351	231,419
Unrestricted	<u>4,099,538</u>	<u>3,571,300</u>
<b>Total Net Assets</b>	<b><u>\$10,459,949</u></b>	<b><u>\$ 9,756,885</u></b>

# Mancelona Area Water and Sewer Authority

## Management's Discussion and Analysis

For the Year Ended December 31, 2007

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### Financial Overview - continued

Current assets increased primarily due to an increase in cash reserves and a minor increase in accounts receivable. The Authority recognized \$700,000 in special assessments receivables relating to construction of a sewer system in the Village of Mancelona and the bond issues to pay for the system. The new assessment is for 40 years on parcels benefiting from the new system.

Current liabilities increased due to accrued construction costs related to the new sewer system and bond principal payments due within one year. Long-term liabilities increased primarily due to \$561,000 of bond issues for sewer system construction.

Restricted net assets represent amounts restricted for debt payment, capital improvements and construction in accordance with funding authorities.

The Statement of Activities represents the results of operations and other sources of revenues and expenses for the Authority

<b>Operating Revenues</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Water Sales and other operating fees	\$ 592,432	\$ 566,037
<b>Operating Expenses</b>		
Expenses – net of Depreciation and Amortization	525,389	500,060
Depreciation	274,170	259,354
Amortization	<u>19,898</u>	<u>32,151</u>
<b>Total Operating Expenses</b>	<u>819,457</u>	<u>791,565</u>
Operating Income(Loss)	(227,025)	(225,528)
<b>Non-Operating Revenues (Expenses) – net</b>	62,710	(2,753)
<b>Capital Contributions, Special Assessments and Other Adjustments – net</b>	<u>867,379</u>	<u>1,265,670</u>
<b>Change in Net Assets</b>	<u>\$ 703,064</u>	<u>\$ 1,037,389</u>

The Authority's net assets continue to be healthy. Operations continue to provide surplus cash for future maintenance and upgrades. The primary increase in net assets over the past couple of years is related to special assessment recognition and capital contributions for water and sewer projects.

### Capital Assets and Debt Administration

#### Capital Assets

At December 31, 2007, the Authority had \$9,807,039, net of accumulated depreciation, invested in water systems and sewer system construction in progress. This amount represents approximately a \$509,038 increase over the prior year.

## **Mancelona Area Water and Sewer Authority**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2007*

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### ***Capital Assets and Debt Administration - continued***

<i>Capital Assets</i>	<u><b>2007</b></u>	<u><b>2006</b></u>
Construction in Progress	\$ 598,144	\$ -
Water System Assets	<u>10,871,072</u>	<u>10,686,007</u>
 <i>Total Capital Assets</i>	 11,469,216	 10,686,007
Accumulated Depreciation	<u>(1,662,177)</u>	<u>(1,388,007)</u>
 <i>Net Capital Assets</i>	 <u><u>\$ 9,807,039</u></u>	 <u><u>\$ 9,298,000</u></u>

The Authority made \$185,065 in water system upgrades in the current year. Sewer system construction costs for the current year were \$598,144.

### **Debt Administration**

The Authority made water system bond payments of \$120,000 and \$130,950 for principle and interest respectively in the current year. It also issued \$561,000 in sewer system bonds. Bond payments due within one year amount to \$180,000. Special assessment receipts for the water and sewer system are expected to be sufficient to cover all bond costs.

### ***Economic Outlook***

The Authority's operations continue to break even or produce minimal additional cash reserves. A major water system user is closing its manufacturing plant. This could affect the Authority's ability to operate at a break even manner. As information and projections are analyzed, future rates and operating expenses could be adjusted.

As noted above, the Authority is in the process of constructing a sewer system in the Village of Mancelona. The estimated project cost is \$2,759,750 and is supported through federal loans and grants.

### ***Contacting the Authority's Financial Management***

This Financial report is designed to provide a general overview of the Authority's finances for all those interested in the Authority. If you have any questions about the report or need additional information, contact the Mancelona Area Water and Sewer Authority at PO Box 940, Mancelona, Michigan 49659.



**Mancelona Area Water and Sewer Authority***Exhibit A*

*Proprietary Fund  
Statement of Net Assets  
December 31, 2007*

	<u>Water System</u>
<b>Assets</b>	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 194,707
Cash on Hand	300
Accounts Receivable	72,000
<i>Total Current Assets</i>	<u>267,007</u>
<i>Non-current Assets</i>	
Cash-Restricted	375,351
Water System Special Assessment Receivable - Principal	3,189,417
Water System Special Assessment Receivable - Interest	105,573
Sewer System Special Assessment Receivable - Principal	700,000
Construction In Progress	598,144
Capital Assets - net	9,208,895
Start Up & Bond Costs - net	105,038
<i>Total Non-current Assets</i>	<u>14,282,418</u>
<i>Total Assets</i>	<u>14,549,425</u>
 <b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	71,505
Current Portion of Long-Term Liabilities	212,062
<i>Total Current Liabilities</i>	<u>283,567</u>
<i>Long-Term Liabilities</i>	
Capital Lease Payable - Truck	5,827
Capital Lease Payable - Meters	227,309
Bonds Payable	
2002 Water System Supply Bonds	2,220,000
2006 Water System Supply Bonds	995,000
2007 Sanitary Sewer System Bonds	561,000
2006 Water System Supply Bonds - premium	8,835
Current Portion - Capital Leases	(32,062)
Current Portion - Bonds Payable	(180,000)
<i>Total Long-Term Liabilities</i>	<u>3,805,909</u>
<i>Total Liabilities</i>	<u>4,089,476</u>
 <b>Net Assets</b>	
Invested in Capital Assets - net of debt	6,022,204
Restricted for Construction	619
Restricted for Capital Improvements	30,633
Restricted for Debt Payment	344,099
Unrestricted	4,062,394
<i>Total Net Assets</i>	<u><u>\$ 10,459,949</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit B*

*Proprietary Fund  
Statement of Revenue, Expenses  
and Changes in Net Assets  
For the Year Ended December 31, 2007*

	<u>Water System</u>
<b>Operating Revenues</b>	
Water Sales	\$ 539,409
Other Charges and Fees	53,023
<i>Total Operating Revenues</i>	<u>592,432</u>
<b>Operating Expenses</b>	
Operating Supplies	11,430
Office Supplies	4,944
Contractual Services	
Administration & Engineering	220,984
System Operation	43,823
Professional Fees	49,863
Communications	9,321
Vehicle	3,900
Printing & Publishing	3,026
Dues & Fees	6,363
Software Support	3,219
Insurance	11,764
Utilities	49,794
Repairs & Maintenance	98,738
Rentals	8,220
Miscellaneous	-
Deferred Charge - Depreciation	274,170
Deferred Charge - Amortization	19,898
<i>Total Operating Expenses</i>	<u>819,457</u>
<i>Operating Income (Loss)</i>	<u>(227,025)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Special Assessment Interest Revenue	166,154
Bank Interest Earned	26,357
Other Fees	15,301
Developer & Other Reimbursements	29,266
Bond Fees	(26,498)
Other Special Assessment and Bond Costs	(3,227)
Interest Expense - Leases	(13,693)
Interest Expense - Bonds	(130,950)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>62,710</u>
<i>Income (Loss) before Capital Contributions and Transfers</i>	<u>(164,315)</u>
Special Assessment - Sewer	700,000
Special Assessment - Water System Adjustment	(11,352)
Capital Contributions	178,731
<i>Change in Net Assets</i>	<u>703,064</u>
Net Assets - Beginning of Year	9,756,885
Net Assets - End of Year	<u><u>\$ 10,459,949</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit C*

*Proprietary Fund  
Statement of Cash Flows  
For the Year Ended December 31, 2007*

	<i>Water System</i>
<b><i>Cash Flows from Operating Activities</i></b>	
Water Sales	\$ 535,936
Other Charges and Fees	53,023
Operating Expenses	<u>(460,745)</u>
<i>Net Cash Provided by/(Used in) Operating Activities</i>	128,214
<b><i>Cash Flows from Capital &amp; Related Financing Activities</i></b>	
Capital Contributions - MDEQ	178,731
Net Proceeds from Bond Issuance	561,000
Other Contributions and Reimbursements	44,567
Water System Special Assessments Receivable - Principal	220,736
Water System Acquisitions and/or Construction Costs	(185,065)
Sewer System Acquisitions and/or Construction Costs	(598,144)
Bond Principal Payments	(120,000)
Capital Lease Payments	(29,958)
Interest Expense - Leases	(13,693)
Interest Expense - Bonds	(130,950)
Bond Fees	(26,498)
Other Special Assessment and Bond Costs	<u>(3,227)</u>
<i>Net Cash Provided by/(Used in) Financing activities</i>	(102,501)
<b><i>Cash Provided from Investing Activities</i></b>	
Interest - Bank	26,357
Interest - Special Assessment	<u>171,685</u>
<i>Net Cash Provided by/(Used in) Investing Activities</i>	<u>198,042</u>
<b><i>Net Increase(Decrease) in Cash</i></b>	223,755
<i>Cash and Cash Equivalents -</i>	
Beginning of Year	<u>346,603</u>
<b><i>Cash and Cash Equivalents - End of Year</i></b>	<u><u>\$ 570,358</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit C**Proprietary Fund**Statement of Cash Flows**For the Year Ended December 31, 2007*

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	<u>Water System</u>
<b><i>Reconciliation of Net Income to Net Cash</i></b>	
<b><i>Provided by/(Used in) Operating Activities</i></b>	
Net Operating Income (Loss)	\$ (227,025)
<i>Adjustments to reconcile change in income to net cash provided by operating activities:</i>	
Depreciation	274,170
Amortization	19,898
<i>Changes in operating assets and liabilities which provided/(used) cash:</i>	
Water System Accounts Receivable	(3,473)
Accounts Payable	<u>64,644</u>
<i>Net Cash Provided by/(Used in) Operating Activities</i>	<u><u>\$ 128,214</u></u>

*The Notes to Financial Statements are an integral part of this statement*

# Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2007

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Mancelona Area Water & Sewer Authority have been prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

### A. Reporting Entity

A Board of Trustees consisting of members from Custer and Mancelona Townships organized the Mancelona Area Water Authority in March of 2000. In 2001, the Village of Mancelona joined the authority. Each local governmental unit member has representation within the Authority. The mission of the Mancelona Area Water and Sewer Authority (MAWSA) is to provide safe water in order to protect public health and the local economy in response to local groundwater contamination.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

### B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The authority is a single purpose governmental unit and reports all of its activities in the following major proprietary fund:

*Enterprise Funds* - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Water Fund is operated with the intention that the cost of providing water services to the public will be financed or recovered primarily through charges to users.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tap fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

# Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2007

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### C. Assets, Liabilities, and Net Assets or Equity

*Bank Deposits and Investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*Accounts Receivable* - Accounts Receivable are recorded in the Water Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's winter tax bill.

*Capital Assets* – Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation and amortization are computed by the straight-line method. The Authority records depreciation and amortization in its Water Fund. Estimated useful lives for depreciable and amortizable assets are as follows:

Water System	40 years
Bond Issue Costs	20 years
Start up Costs	5 years
General Equipment	5-7 years

In 2005, the Authority reviewed the estimated lives of its water system assets. It was determined 40 years was more appropriate estimated useful life for these assets. Prior depreciation was based on an estimated life of 25 years. Current depreciation is based on a 40-year life and no adjustment was made to prior depreciation.

*Long-Term Obligations* - In the proprietary fund statement, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net assets. Bonds payable are reported net the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A budget is adopted for operational purposes of the Water Fund on an annual basis. However, budgets are not required for either Debt Service or Proprietary Funds. Consequently, no budgetary information is provided with these financial statements.

# Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2007

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## NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

### A. Legal or Contractual Provisions for Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit has designated one bank for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as outlined above.

The Local Governmental Unit's deposits and investment policy are in accordance with the statutory authority.

### B. Types of Deposits and Investments

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

	<i>Business-Type Activities</i>
Cash & Cash Equivalents	\$ 195,007
Investments	-
Restricted Assets	<u>375,351</u>
Total	<u>\$ 570,358</u>

The breakdown between deposits and investments are as follows:

	<i>Primary Government</i>
Bank Deposits (checking and savings)	\$ 570,058
Investments	-
Cash on Hand	<u>300</u>
Total	<u>\$ 570,358</u>

FDIC insurance coverage of \$100,000 per deposit applies separately to the demand and time deposits of a public unit. At December 31, 2007, the total bank deposits of the Authority amount to \$596,832 of which \$125,417 is covered by FDIC insurance.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2007

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### NOTE 4 - SUMMARY OF CAPITAL ASSETS

Long-Term Assets in the Water Fund as of December 31, 2007, are summarized as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deletions</i>	<i>Ending Balance</i>
Sewer System - Construction	\$ -	\$ 598,144	\$ -	\$ 598,144
<i>Depreciated Assets</i>				
Custer TWP/Cedar River System	\$ 3,259,810	\$ -	\$ -	\$ 3,259,810
MDEQ System	5,266,191	178,731	-	5,444,922
Mancelona TWP System	110,710	-	-	110,710
Village of Mancelona System	1,027,762	-	-	1,027,762
Hawk's Eye System	994,638	6,334	-	1,000,972
General Equipment	<u>26,896</u>	<u>-</u>	<u>-</u>	<u>26,896</u>
Total Depreciated Assets	\$10,686,007	185,065	-	10,871,072
Depreciation	<u>(1,388,007)</u>	<u>(274,170)</u>	<u>-</u>	<u>(1,662,177)</u>
Net Depreciated Assets	<u>9,298,000</u>	<u>(89,105)</u>	<u>-</u>	<u>9,208,895</u>
<i>Net Fixed Assets</i>	<u>\$ 9,298,000</u>	<u>\$ 509,039</u>	<u>\$ -</u>	<u>\$ 9,807,039</u>
Start Up Costs	133,902	-	-	133,902
Bond Issue Costs	<u>130,146</u>	<u>-</u>	<u>-</u>	<u>130,146</u>
Total Start Up & Bond Costs	264,048	-	-	264,048
Amortization	<u>(139,112)</u>	<u>(19,898)</u>	<u>-</u>	<u>(159,010)</u>
<i>Net Start Up &amp; Bond Costs</i>	<u>\$ 124,936</u>	<u>\$ (19,898)</u>	<u>\$ -</u>	<u>\$ 105,038</u>

### NOTE 5 – SPECIAL ASSESSMENTS RECEIVABLE

#### A. Water System

The Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" in April 2002 to pay for the acquisition and construction costs of water systems in Custer and Kearney Townships. A special assessment was levied on properties in those townships to service the bonds as they come due. This assessment is billed with the winter tax cycle.

In May 2006, the Authority issued \$995,000 of "2006 Water Supply Revenue Bonds" to pay for construction costs of adding the Hawk's Eye Golf Club development to the water system. A special assessment was levied on those properties located in Kearny Township to service the bonds as they come due and an additional \$265,000 for construction costs. The total special assessment levied on the Hawk's Eye development is \$1,260,000 and is billed with the summer tax cycle.



# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2007

### NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE – continued

The Authority is a special purpose governmental unit engaging in a single purpose activity and, in accordance with GASB Statement #6; the Authority recorded the special assessment receivable, principal portion equal to the amount of the bonds plus additional construction costs. As discussed above, a portion of the special assessment received each year is used to reduce the amount of bond principal. The balance of the water system special assessments receivable, principal portion at December 31, 2007 is \$2,059,656 and \$1,129,761 for the 2002 and 2006 special assessment levies respectively.

Interest included on the 2007 tax roll for the 2002 levy was calculated using an interest rate of 4.745%. Interest included on the 2007 tax roll for the 2006 levy was calculated using an interest rate of 5.728%.

The water system special assessments will be levied and recorded over a twenty-year period according to the following as of December 31:

	<u>2002 Assessment</u>		<u>2006 Assessment</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 138,511	\$ 98,585	\$ 61,868	\$ 63,795
2009	138,511	92,013	61,869	60,252
2010	138,511	85,441	61,868	56,708
2011	138,511	78,869	61,869	53,164
2012	138,511	72,296	61,868	49,620
2013-2017	692,555	262,896	309,342	194,944
2018-2022	692,563	98,579	309,342	106,348
2023-2025	-	-	185,722	21,283
	<u>2,077,673</u>	<u>788,679</u>	<u>1,113,748</u>	<u>606,114</u>
Less: Prepaid 2007 Winter Tax	(18,017)	(10,438)	-	-
Plus: Unpaid 2007 Summer Tax	-	-	16,013	17,427
	<u>\$ 2,059,656</u>	<u>\$ 778,241</u>	<u>\$ 1,129,761</u>	<u>\$ 623,541</u>

Special assessment revenue recognized in the current year includes the interest equal to the levy on the 2007 tax roll, which totaled \$166,154. The interest portion of the special assessments receivable at December 31, 2006 is \$88,146 and \$17,427 for the 2002 and 2006 levies respectively.

#### B. Sewer System

In September 2007, the Authority issued \$700,000 of “2007 Sanitary Sewer System Revenue Bonds” to pay for engineering and construction costs of a sewer system for the Village of Mancelona. The Village of Mancelona levied a special assessment against the properties that benefit from the system. The \$700,000 special assessment levied on the properties is billed with the summer tax cycle.

Interest was not included on the 2007 tax roll.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2007

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### NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE – continued

The Sewer system special assessment will be levied and recorded over a forty-year period according to the following as of December 31:

	<u>2007 Assessment</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 17,500	\$ 34,978
2009	17,500	34,081
2010	17,500	33,184
2011	17,500	32,288
2012	17,500	31,391
2013-2017	87,500	143,500
2018-2022	87,500	121,078
2023-2027	87,500	98,656
2028-2032	87,500	76,234
2033-2037	87,500	53,813
2038-2042	87,500	31,391
2043-2046	70,000	8,969
	<u>\$ 682,500</u>	<u>\$ 699,563</u>
Plus: Unpaid 2007 Summer Tax	<u>17,500</u>	<u>-</u>
	<u>\$ 700,000</u>	<u>\$ 699,563</u>

### NOTE 6 - LONG-TERM DEBT

#### A. Water System Special Assessment Bonds

In April 2002, the Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" to pay for the acquisition and construction costs of water systems in Custer and Kearney Townships. The bonds are due in nineteen annual principal installments ranging from \$100,000 to \$200,000 beginning April 1, 2003. The bonds initially bear a variable interest rate of 1.55%. In December 2004, the Authority locked the interest at 3.29%

In May 2006, the Authority issued \$995,000 of "2006 Water Supply Revenue Bonds" to pay for construction costs of adding the Hawk's Eye Golf Club development to the water system. The bonds are due in nineteen annual principal installments ranging from \$50,000 to \$55,000 beginning May 1, 2008. The bonds bear an interest rate of 4.5%. The bonds were offered with a reoffering premium of \$8,835 that will be amortized on a percentage of principal payment basis over the term of the bonds as a reduction of interest costs.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2007

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### **NOTE 6 - LONG-TERM DEBT - continued**

Bond documents specify the debt service requirements are to be met using proceeds from special assessments described in Note 5. Special assessment proceeds and debt service payments are recorded in the proprietary fund, as is the outstanding debt. Even though the bonds are titled revenue bonds, the revenue generated by the water and sewer systems is to be used only in the event of default. It is anticipated the special assessments will cover the debt requirements.

The following is a summary of transactions that occurred in water system bonds payable during the current year ended December 31

	<i>Beginning Balance</i>	<i>Additions (Reductions)</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
2002 Revenue Bonds	\$ 2,340,000	\$ (120,000)	\$ 2,220,000	\$ 125,000
2006 Revenue Bonds	995,000	-	995,000	55,000
Totals	<u>\$ 3,335,000</u>	<u>\$ (120,000)</u>	<u>\$ 3,215,000</u>	<u>\$ 180,000</u>

Amount required to amortize special assessment water system bonds at December 31, 2007:

	<i>2002 Revenue Bonds</i>		<i>2006 Revenue Bonds</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2008	\$ 125,000	\$ 83,441	\$ 55,000	\$ 43,988
2009	130,000	78,382	55,000	41,512
2010	135,000	73,687	55,000	39,038
2011	135,000	68,625	55,000	36,562
2012	140,000	63,708	55,000	34,088
2013-2017	800,000	233,309	270,000	133,425
2018-2022	755,000	72,016	250,000	75,312
2023-2027	-	-	200,000	18,788
	<u>\$ 2,220,000</u>	<u>\$ 673,168</u>	<u>\$ 995,000</u>	<u>\$ 422,713</u>

### **B. Sewer System Special Assessment Bonds**

In September 2007, the Authority issued \$700,000 of "2007 Sanitary Sewer System Revenue Bonds" to pay for engineering and construction costs of a sewer system for the Village of Mancelona. The bonds are due in thirty-nine annual principal installments ranging from \$6,000 to \$35,000 beginning September 1, 2009. The bonds bear an interest rate of 4.125%.

The following is a summary of transactions that occurred in sewer system bonds payable during the current year ended December 31

	<i>Beginning Balance</i>	<i>Additions (Reductions)</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
2007 Revenue Bonds	\$ -	\$ 561,000	\$ 561,000	\$ -

# Mancelona Area Water and Sewer Authority

*Notes to Financial Statements*

*December 31, 2007*

## **NOTE 6 - LONG-TERM DEBT - continued**

Amount required to amortize sewer system special assessment bonds at December 31, 2007:

	<u>2007 Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ 22,790
2009	6,000	28,875
2010	7,000	28,628
2011	8,000	28,339
2012	9,000	28,009
2013-2017	50,000	134,228
2018-2022	61,000	123,048
2023-2027	72,000	109,642
2028-2032	88,000	93,472
2033-2037	108,000	73,672
2038-2043	130,000	49,706
2044-2047	<u>161,000</u>	<u>20,419</u>
	<u>\$ 700,000</u>	<u>\$ 740,828</u>

## **NOTE 7 - LEASING ARRANGEMENTS**

The Authority subleases its office space from Northwestern Michigan Community Health Agency. On January 1, 2004, the lease was renegotiated. The term is for 60 months with a beginning monthly payment of \$452.31 and an option for three five-year renewals. The lease can be adjusted annually for changes in prorated occupancy costs. Lease expense, which also includes prorated occupancy costs, was \$8,220 for the current year ended December 31.

In December 2003, the Authority entered in to a capital lease with Daimler Chrysler Services for a 2004 Dodge Truck. The lease calls for 60 monthly payments of \$495.60 including interest at 4.02% per annum. At the end of the lease, the Authority will own the truck.

In April 2005, the Authority entered in to a capital lease with ORIX Public Finance to pay for new meter installation and materials for the Village of Mancelona water system. The lease calls for 120 monthly payments of \$3,175 including interest at 5.508% per annum.

The following is a summary of future minimum lease payments as of December 31, 2006.

	<u>Truck</u>	<u>Meter Installation</u>	<u>Office</u>
2008	\$ 5,948	38,100	5,428
2009	-	38,100	-
2010	-	38,100	-
2011	-	38,100	-
2012	-	38,100	-
2012-15	<u>-</u>	<u>85,725</u>	<u>-</u>
	5,948	276,225	5,428
Less: Interest	<u>121</u>	<u>48,916</u>	<u>-</u>
	<u>\$ 5,827</u>	<u>\$ 227,309</u>	<u>\$ 5,428</u>

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2007

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### NOTE 9 - RISK MANAGEMENT

The Authority pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Authority carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE 10 – RELATED PARTY TRANSACTIONS

The Authority contracts with the following entities for operational or construction purposes. The entities perform administrative and/or management services for the Authority. The following is a summary of transactions with the related parties as of and for the year ended December 31, 2007:

	<u>Costs Incurred</u>	<u>Amount Payable</u>
Gourdie/Fraser & Associates	\$ 726,672	\$ 17,895
Community Resource Development, Inc.	<u>43,038</u>	<u>-</u>
Total	<u>\$ 769,710</u>	<u>\$ 17,895</u>

The Authority's Treasurer is the branch manager and assistant vice president for the Mancelona National City Bank. The Authority maintains its bank accounts with National City Bank and the bank services the debt of the Authority.

### NOTE 11 – COMMITMENTS AND SUBSEQUENT EVENTS

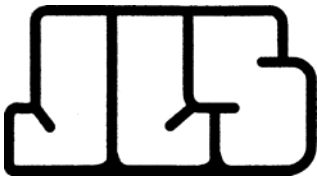
The Authority moved to new offices at the Mancelona Township hall in April 2008.

A manufacturing plant in the Village of Mancelona is closing. The plant is a major user of the water system and the Authority is assessing the affects of the closure.

### NOTE 12 – PRIOR PERIOD ADJUSTMENT

Analysis of the prior year water sales and accounts receivable revealed both were overstated by approximately \$33,634. Consequently, beginning net assets and accounts receivable balances were adjusted for the overstatement. The financial statements reflect the adjustments accordingly.

FEDERAL FUNDS SECTION



**J L Stephan Co PC**  
**Certified Public Accountants**

Jerry L. Stephan, CPA

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Marty K. Szasz-Busby, CPA  
David Skibowski, Jr., CPA  
Christopher H. Cornell, CPA

***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Mancelona Area Water & Sewer Authority  
9610 S. M-88 Hwy  
PO Box 940  
Mancelona, MI 49659

We have audited the financial statements of the business-type activities the Mancelona Area Water and Sewer Authority, Antrim County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Mancelona Area Water and Sewer Authority's basic financial statements and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mancelona Area Water and Sewer Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mancelona Area Water and Sewer Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Mancelona Area Water and Sewer Authority's internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not

identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether the Mancelona Area Water and Sewer Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the Mancelona Area Water and Sewer Authority in a separate letter as part of the audited financial statements.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*J. L. Stephan Co. P.C.*

June 6, 2008





# Mancelona Area Water and Sewer Authority

## Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2007

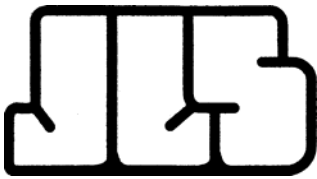
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<i>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</i>	<i>Federal CDFA Number</i>	<i>Pass-Through Entity Identifying #</i>	<i>Current Year Federal Expenditures</i>
US Department of Agriculture - Rural Development			
<i>Water and Waste Disposal Systems for Rural Communities</i>	10.760	N/A	\$ 598,144

### Notes to Schedule of Expenditures of Federal Awards

#### **Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal loan and grant activity of the Mancelona Area Water and Sewer Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**J L Stephan Co PC**  
**Certified Public Accountants**

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA  
David Skibowski, Jr., CPA  
Christopher H. Cornell, CPA

***REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133***

Board of Directors  
Mancelona Area Water & Sewer Authority  
9810 S. M-88 Hwy.  
PO Box 940  
Mancelona, MI 49659

We have audited the compliance of the Mancelona Area Water and Sewer Authority, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs in the responsibility of the Mancelona Area Water and Sewer Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mancelona Area Water and Sewer Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination in the Mancelona Area Water and Sewer Authority's compliance with those requirements.

In our opinion, the Mancelona Area Water and Sewer Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

**Internal Control Over Compliance**

The management of the Mancelona Area Water and Sewer Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but

not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mancelona Area Water and Sewer Authority's internal control over compliance.

A control *deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with the type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*J. L. Stephan Co. P.C.*

June 6, 2008



# Mancelona Area Water and Sewer Authority

## Schedule of Findings and Questioned Costs For the Year Ended December 31, 2007

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### Section I – Summary of Auditor’s Results

#### Financial Statements

Type of Auditor’s Report Unqualified

Internal control over financial reporting:

Material weakness identified? No

Reportable conditions identified not considered material weaknesses? Yes

Non-compliance material to financial statements note? No

#### Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified not considered material weaknesses? None Reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? No

Identification of major programs:

<u>CDFA#</u>	<u>Name of Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold to distinguish between type A and type B programs: \$500,000

Audited qualified as low risk auditee? No

### Section II – Financial Statement Findings

No financial statement findings

### Section III – Federal Award Findings and Questioned Costs

No federal award findings or question costs are reported.

OTHER INFORMATION (UNAUDITED)

# **Mancelona Area Water and Sewer Authority**

## *Comments and Recommendations*

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In planning and performing our audit of the financial statements of Mancelona Area Water and Sewer Authority, for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### Segregation of Duties

The office administrator performs duties such as billings, cash receipts, deposit preparation and bank reconciliations optimally preformed by different individuals. We recognize the Authority is a small organization and it is difficult to segregate these duties. We noted an improvement segregating duties throughout the year and we commend the office management for their efforts. The lack of regular oversight and review by individuals outside the processes noted in the prior year appears to be mitigated by other compensating controls. We believe the compensating controls reduce the risk of material misstatement to a relatively low level. This is an update of a comment from prior years.

### Accounting System

Mancelona Area Water and Sewer Authority is a special purpose governmental unit under *Governmental Accounting Standards Board Statement 34*. The functions it operates, or plans to operate, are business in nature and, as such, all accounting records and transactions should be maintained in a single proprietary/business type fund.

Currently it is the Authority's practice to maintain its operations and maintenance accounting records separately from its debt service and special assessment accounting records. In essence, the Authority maintains two different funds. Significant effort and time is required to combine the accounting records to a single proprietary form. As noted, this is contrary to proper accounting practices.

# **Mancelona Area Water and Sewer Authority**

## *Comments and Recommendations*

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We recommend the Authority update and maintain its accounting system in accordance with authoritative standards.

### *Bond Expense Payments*

We noted the Hawk's Eye bond interest payment made in November 2007 was made with Schuss Special Assessment funds. We brought this to the attention of management during fieldwork. Subsequently, sufficient funds were transferred from the Hawk's Eye special assessment account to the Schuss special assessment account to correct the error. In the future, we recommend procedures be implemented to mitigate the likelihood of reoccurrence.

### *Closing Comments*

We are happy to discuss any of these recommendations and assist in their implementation. This report is intended solely for the information and use of the Mancelona Area Water and Sewer Authority, and others within the organization. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise regarding these statements or the conduct of our audit, please call us at your convenience.